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August 1, 2008

Bob Fontaine, Park Superintendent
Prado Regional Park
16700 South Euclid Road
Chino, CA 91710

SUBJECT: CASH CONTROL AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and the Standard Practice for Cash and Internal Controls, we have completed the cash control audit of Prado Regional Park. Our audit was conducted in accordance with the standards developed by the International Standards for the Professional Practice of Internal Auditing.

Background

Prado Regional Park is one of nine parks managed by the County's Regional Parks Administration. The Park has three authorized cash funds, which total \$3,350. The various recreational activities offered within the park are the primary resources for cash in-flows.

Scope of Audit

Our objective was to determine whether the cash handling controls practiced were effective. Specifically, we determined whether:

- Cash assets were properly safeguarded.
- Cash deposits were made on a timely basis.
- Cash funds were managed in accordance with the County's Internal Control and Cash Manual.

We accomplished our objectives by performing the following audit procedures:

- We performed surprise cash counts of all the authorized cash funds and undeposited cash sales.
- We reviewed cash deposits for the period of July 1, 2006 through December 31, 2006.
- We interviewed Park personnel regarding cash fund management.
- We inquired of management regarding the communication of policies and procedures to the staff members.

A draft report was sent to the Department and discussed with management on March 21, 2008. The department's responses to our recommendations are included in this report.

Overall Conclusion

We have concluded that the cash handling controls at Prado Regional Park need to be improved to better safeguard cash assets. The improvements needed were specially related to:

- Overall cash control safeguards
- Management of authorized cash funds
- Supervisory oversight procedures
- Bank deposits

Findings and Recommendations

The specific policies, procedures, and practices that need improvement are discussed below.

Audit Finding #1 Cash handling controls for the Change Fund need to be improved.

The County's Internal Control and Cash Manual, Chapter 6, states that adequate controls must be practiced for both the cash receipting functions and voiding transactions.

The cashiers are allowed to use cashier register codes assigned to other cashiers to perform sales transactions. In addition, the supervisors frequently did not initial the voided receipts when approving voided transactions. Out of the 4 voided transactions reviewed, all 4 transactions did not have evidence of a supervisor's approval. The Park Superintendent did not always ensure supervisors are fully performing their duties of managing the Change Fund.

If management does not effectively maintain the security of the cashiering codes and ensures supervisors are properly approving voided transactions, the Park becomes more susceptible to cash misappropriations by operating personnel.

Recommendation

The park superintendent should ensure the cashiering codes of the operating personnel remain secure to prevent the improper use by other cashiers. Additionally, the Park Superintendent should ensure the supervisors properly approve voided transactions. Furthermore, the performance of these controls should be periodically monitored.

Management's Response:

Currently, cashiers only use their assigned cashiering codes. It's not possible to secure cashiering codes from each other because their codes appear on the journal tape and on the receipts. Anyone can look at the journal tape to see who was just on the register. We do now require cashiers to initial their name on the journal tape when they go on break, lunch, or end their shift and also to sign back in when they return from their breaks, lunch, etc.

All rangers and supervisors are currently initialing all voided receipts.

Auditor's Response:

Management's response addresses actions subsequently taken to correct the deficiencies noted in the audit finding. Due to the security limitations of the cashiering codes, the supervisors should review the register tape to ensure that an employee's code is not being used when the employee is either on break, lunch, or in the employee's absence.

Audit Finding #2 Management of both the Petty Cash Fund and Cash Difference Funds need to be improved.

The County's Internal Controls and Cash Manual, Chapter 4, states county departments must reconcile their cash funds at least once a month by someone other than the fund custodian to ensure transactions have been properly recorded. At the time the cash count took place Chapter 5, stated the Cash Difference Fund should be replenished when accumulated shortages reach \$25. The Auditor/Controller-Recorder's office issued a revision in January 2008 of the Internal Controls and Cash Manual, Chapter 5, which now states cash shortages resulting from cash handling errors must be reported and replenished as soon as the accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower.

The following conditions were disclosed during our review:

- Supervisory approval was not documented on the petty cash vouchers.
- One expense was not issued or accompanied by a voucher.
- The park is not replenishing the cash difference fund as stated in the County's Internal Controls Cash Manual. The fund had been depleted to \$.11 prior to the fund custodian requesting replenishment on 04/25/2007.

- Reconciliations for both the Petty Cash and Cash Difference Fund were not being performed on a monthly basis or by someone other than the fund custodian prior to April 2007.

Management is not practicing nor enforcing the required guidelines as stated in the Internal Control and Cash Manual.

If petty cash fund expenditures are not being approved by a supervisor and reconciliations of all department cash funds are not being performed on a monthly basis by someone other than the fund custodian, the risk of misappropriations of cash assets increases.

Recommendation

Management should ensure the Petty Cash Fund is replenished when 75% of the authorized fund balance has been depleted and the Cash Difference Fund is replenished when accumulated shortages reach 75% of the authorized fund balance or \$100 whichever is lower. In addition management should ensure funds are reconciled on a monthly basis by someone other than the fund custodian, and disbursed according to the guidelines prescribed in the County's Internal Controls and Cash Manual.

Management's Response:

The Petty Cash Fund is now being replenished when 75% of the authorized fund balance has been depleted. Additionally, the Superintendent is signing all petty cash vouchers. In reality, the Petty Cash Fund is rarely used. With Cal Cards and LV #'s, Petty Cash is seldom necessary.

The Cash Difference Fund is being replenished when we've depleted approximately \$100.00 of the \$200.00 fund.

The Funds are being reconciled at least monthly, if not more regularly, by the Superintendent and is documented on a Change Fund Verification Sheet that we keep in a binder.

Auditor's Response:

Management's response addresses actions subsequently taken to correct the deficiencies noted in the audit finding.

Audit Finding #3 Cash deposits were not made in a timely manner.

At the time the cash count took place the County's Internal Controls and Cash Manual, Chapter 7, required cash deposits to be made at least weekly, however a revision to the manual in Chapter 3 was made in January 2008 which requires deposits to be made the next business day when the amount of receipts reaches \$1,000.

A review of cash deposits, which consisted of 5 weeks between July 1, 2006 and December 31, 2006, disclosed 7 exceptions in which cash deposits were not made within 7 days.

Management did not ensure operating personnel were providing the armored transport services with the cash deposits within one week from the week of sales activity.

Untimely cash deposits increases the risk of misappropriations of cash assets due to cash assets being in the possession of the park longer than necessary.

Recommendation

Management should ensure that the cash deposits are performed at a minimum within 7 days or daily when receipts reach \$1,000 as stated in the County's revised Internal Control and Cash Manual to minimize the risk of misappropriations.

Management's Response:

The audit clerk works Monday thru Friday reconciling and preparing deposits. We average 4 days a week taking in \$1,000.00 or more in cash during the winter-spring and 5-6 days a week during the summer. We get Armored Transport on Tuesdays and Fridays and it would be costly to increase the number of pickups for our small department. In order to make a deposit every time we reach \$1,000.00 in receipts, we have to bring the money down to the bank, 7 miles away. In my opinion, it's not safe for any employee to be carrying cash like that to a bank. We need to increase the number of days we get picked up with no additional revenue, or more preferably, raise the deposit limit, since we are the busiest park.

Auditor's Response:

The average cash revenue generated during a week of operations warrants an increase of armored truck services to 4 times per week. The total monthly cost to have services 4 times per week is \$2,030.65, which is \$24,387.80 per year. With the park generating yearly revenue of approximately \$1,339,500, the additional cost of armored truck services would only account for 1% of the yearly revenue.

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We would like to express our appreciation to the staff at the Regional Parks Department for their support and cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
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